



Director of
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Intelligence

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IRAN-IRAQ: Fighting Continues

Iraqi lines are still intact east of Al Basrah, and both sides are resuming attacks against each other's cities. [redacted]

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[redacted] the Iraqis stopped the Iranian assaults east of Al Basrah and that Iranian forces there are under heavy artillery bombardment. [redacted]

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[redacted] US journalists have confirmed that Al Qurnah is still in Iraqi hands. Iran claims its forces captured some oil facilities in the swamps east of the main road in the Majnoon area. [redacted]

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The Iraqis bombarded Khorramabad and Borujerd with surface-to-surface missiles yesterday, and the Iranians retaliated with artillery and air attacks on Al Basrah, Al 'Amarah, and Rawanduz. [redacted]

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Comment: The Iraqis should be able to clear the Iranians out of positions near the main road north of Al Basrah, largely because the Iranians have to move supplies across about 25 kilometers of marsh and swamp. Iraq's air superiority will allow it to use its helicopter gunships to disrupt Iranian resupply efforts. [redacted]

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PLO-JORDAN: Preparing for Arafat's Visit

PLO chief Arafat may meet with Jordan's King Hussein soon, but they are likely to make little progress in developing a joint approach to future peace negotiations with Israel. [REDACTED]

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Arafat chaired a meeting of the Fatah Central Committee earlier this week to prepare for discussions with Hussein, and two of his senior advisers arrived in Amman on Thursday. Press accounts state the committee decided that Arafat could try to improve relations with Jordan but that it cautioned he had no mandate to discuss Jordanian representation of Palestinian interests. [REDACTED]

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The Jordanians have told the US Embassy that Arafat has to be accompanied by members of the PLO decisionmaking bodies. Amman is seeking to prevent Arafat from insisting that he has to refer decisions back to his organization. [REDACTED]

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In addition, the Jordanians have lined up a group of pro-Jordanian West Bank Palestinians to be present during Arafat's visit. Amman wants the West Bankers to encourage Arafat to come to terms with Hussein. [REDACTED]

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[REDACTED]

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[REDACTED] Pro-Arafat Palestinians reportedly also may organize demonstrations in support of the PLO leader. Recent disturbances at a West Bank university were caused in part by clashes between Arafat loyalists and by supporters of the PLO rebels who oppose negotiations with Hussein. [REDACTED]

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Comment: Hussein does not expect Arafat to commit himself—during the first round of discussions—to a joint Jordanian-Palestinian arrangement that would lead to negotiations with Israel. Nevertheless, he wants to press Arafat more toward negotiations. The King will point to Palestinian participation in Jordan's parliament and to the presence of West Bank leaders in Amman as strong evidence of the sense of urgency felt by many Palestinians. [REDACTED]

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Arafat and his Fatah supporters are not yet committed to cooperating with Hussein. Moreover, they are reluctant to take any decisive steps for fear that a closer alliance with Hussein would cause additional defections from the Arafat camp and could lead to a formal split of the PLO. [REDACTED]

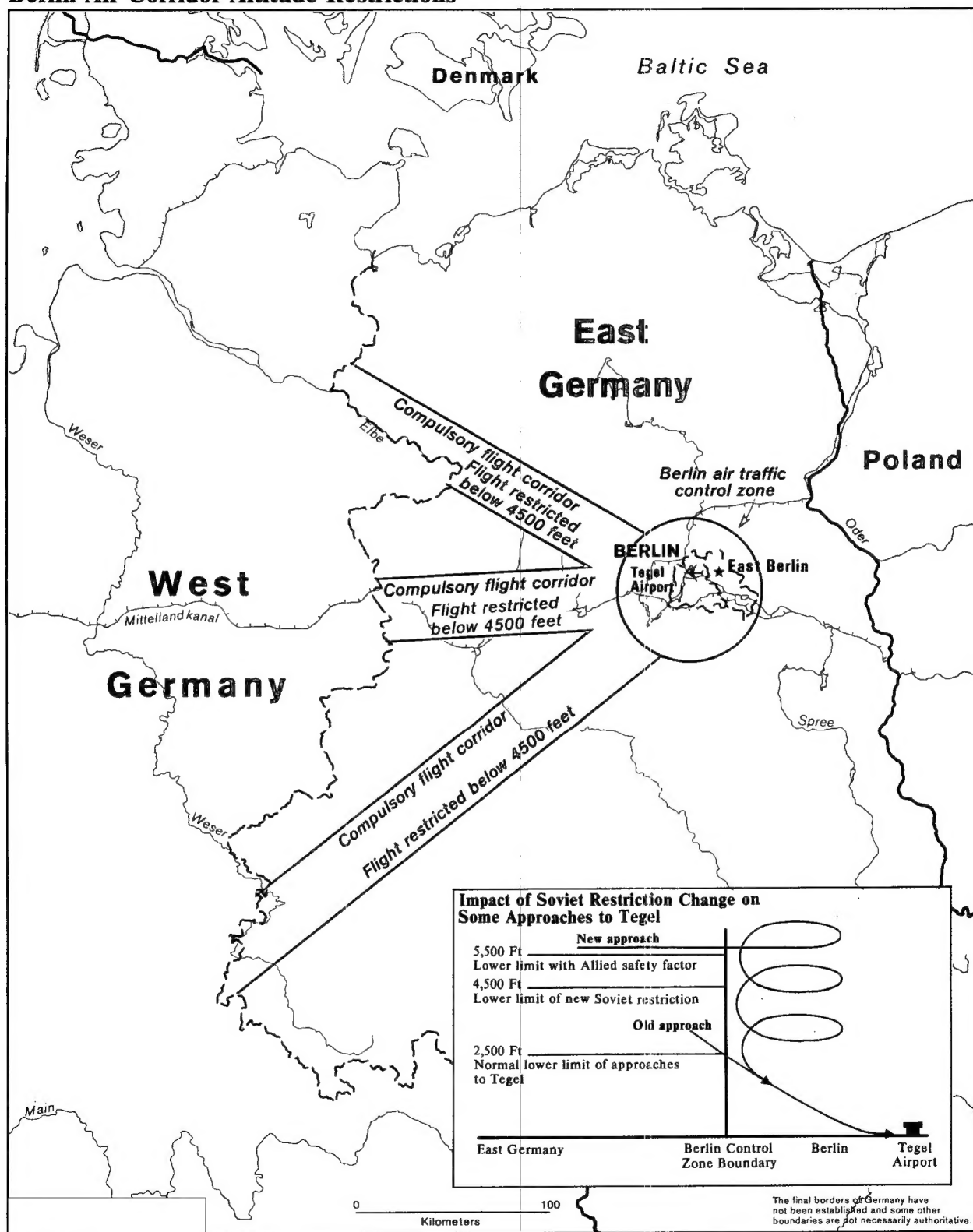
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Berlin Air Corridor Altitude Restrictions

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USSR: New Air Restrictions in Berlin

The USSR has announced new altitude restrictions on Allied flights in the air corridors linking Berlin to West Germany during scheduled military flights through those corridors. [redacted]

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The Soviet chief controller in the Berlin Air Safety Center informed his Western counterparts on Monday that Soviet corridor reservations would henceforth extend from the inner-German border to the boundary of the Berlin air traffic control zone. During these reservations, the Soviets would not guarantee the safety of Allied aircraft flying below 4,500 feet at any point along the corridor. The Soviet action was said to be in response to Allied protests about Warsaw Pact military aircraft in the corridors. [redacted]

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Soviet officials did not respond for several days to Allied protests against the first reservation on Monday. When the US Minister in Berlin informally protested the second reservation that was announced yesterday, a Soviet Embassy official said that Soviet military authorities had determined that the higher ceiling was needed to ensure the safety of Soviet military flight activity in the area just outside the air traffic control zone. A formal statement delivered later to Allied controllers at the Air Safety Center reaffirmed the second reservation. [redacted]

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Comment: In the past Soviet reservations applied only to the middle segment of each of the three corridors and did not affect Allied aircraft in their normal descent into, or ascent from, Tegel Airport in Berlin. Allied aircraft now have to fly at an abnormally high altitude as they enter or leave Berlin whenever the new Soviet reservations are in effect, forcing planes using certain runways to circle within the air traffic control zone to attain the proper altitude. This complicates air traffic control procedures and could endanger aircraft in the zone. [redacted]

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Soviet restrictions on the Berlin air corridors were not a problem until the summer of 1980, when the Soviets ceased simply "closing" specific areas to air traffic and began to coordinate the use of airspace with the Allies at the Air Safety Center. This change of policy apparently was made out of a heightened concern for flight safety that may have stemmed from the Soviets' increasing use of close air support for ground army maneuvers. The apparent confusion of the Soviet Embassy official who received the initial Allied demarche on Monday suggests that Soviet military authorities had decided upon the new restrictions without consulting the Embassy. [redacted]

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NETHERLANDS-US: Foreign Minister's Visit

Dutch Foreign Minister van den Broek will convey The Hague's growing concern about INF prospects in the Netherlands during his visit to Washington, which begins on Tuesday. []

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Comment: The Foreign Minister is a strong advocate of INF deployments, but he and Prime Minister Lubbers may have been too optimistic about the prospects of parliamentary approval. Lubbers has committed his government to a decision by June, and he probably will make a parliamentary vote on INF basing—for which there is currently no assurance of a majority—a matter of confidence. This policy has set the stage for a possible setback that might bring down the government and adversely affect INF commitments in other countries. []

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Both Lubbers and van den Broek are aware the Allies would prefer that the Dutch continue to delay rather than risk a negative vote. Several prominent members of van den Broek's Christian Democratic Appeal party—which is the dominant party in parliament—have already called for a postponement of the decision beyond June. []

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Such a move, however, would delay basing preparations. Defense Minister de Ruiter has pledged to defer construction until a decision to deploy is made. []

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To induce a more favorable parliamentary consideration of the issue, the government reportedly has devised a plan that calls for the elimination of at least four of the Netherlands' six nuclear tasks. Even if the Allies agreed to allow the Dutch to eliminate all four tasks, however, there is no guarantee that INF would win parliamentary approval. []

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INF will be the most important subject on van den Broek's agenda, but he probably will raise several other bilateral issues. The Hague is uneasy about what it considers the extraterritorial application of US laws—particularly on future Dutch aircraft sales to Libya—and the potential adverse effects on Dutch multinational corporations of the taxing practices of some US jurisdictions. Van den Broek also will underline the necessity for government-to-government offsets in European purchases of US defense systems, such as those The Hague obtained when it recently bought the Patriot missile system. []

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GRENADA: Political Maneuvering

Election preparations are under way, but no broad-based moderate coalition has emerged to oppose the rightist party of former Prime Minister Gairy. []

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The Governor General has stated publicly that elections will be held this year, and the electoral commission says voter registration will begin in mid-March. According to the US Embassy, however, the commission lacks the technical and financial assistance to conduct the enumeration efficiently or to mount an information campaign. []

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[] attempts to merge two political parties—one conservative and the other moderate—to compete against Gairy's group thus far have been unsuccessful. Nonetheless, leaders of the two parties have told Embassy officials that they are optimistic that a middle-of-the-road group will emerge in the near future. []

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Gairy has announced that he will not run in the elections, but he is openly trying to revive his party and is assisting in the selection of a candidate. To increase his limited public appeal, Gairy is suggesting that he has US support. []

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The New Jewel Movement, which was resurrected last month under the cover of the Maurice Bishop Memorial Fund, is conducting a variety of fundraising activities. According to the Embassy, many Grenadians doubt the movement will put forth a candidate in the elections. If it does, however, they believe he will be defeated. []

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Comment: Most Grenadians have shown little interest in elections so far and appear confused by the sudden proliferation of political parties. A low voter turnout is likely unless an information campaign is mounted to motivate citizens to register and vote. Such a turnout might favor Gairy, because he is well known. The failure of the moderates to unite into a single coalition also would help the chances of Gairy's party. []

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AUSTRIA-US: President's Visit

President Rudolf Kirchschlaeger's largely ceremonial visit to the US is intended to emphasize the generally good bilateral relations, but he also may want to discuss East-West, Middle Eastern, and Central American issues. []

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Kirchschlaeger arrives in New York tomorrow to begin a nine-day visit. The US Embassy in Vienna reports that the Austrians believe the trip reflects the close relations between the two nations. It also is intended to balance the President's visit to Moscow in 1982, in keeping with Austria's policy of neutrality. []

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Comment: There currently are almost no strains in bilateral relations. Technology transfers to the USSR and Eastern Europe, as well as US restrictions on the import of specialty steels, had caused difficulties last year. A voluntary arrangement to restrict the reexport of US-origin technology and the Orderly Marketing Agreement on Austrian steel exports have partially resolved these problems. []

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In 1983 Vienna launched the "USA Concept," a four-year program commemorating the 35th anniversary of the Marshall Plan, by promoting bilateral ties in a variety of fields. US and Austrian representatives agreed last month to establish a program to encourage scientific and technical cooperation, which the Austrians plan to announce during the visit. []

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The Austrians also may want to have broader discussions on foreign policy issues. They believe that, as neutrals, they can play a useful role in world affairs. Austrian assessments of Central America and the Middle East differ from those of the US, but Austria retains a generally pro-Western orientation. []

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At the same time, Kirchschlaeger supports Austria's historically close ties with its East European neighbors. Austrians continue to believe detente is a workable policy, and they are likely to offer to help reduce East-West tensions. []

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EL SALVADOR: Election Concerns of the Military

Some military leaders are worried that a Christian Democratic victory in the election on 25 March could threaten the autonomy of the armed forces. []

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The US Embassy reports that Defense Minister Vides fears a reformist government might attempt the wholesale replacement of military leaders. Vides also indicates the armed forces are concerned that a Christian Democratic administration could lead to a dialogue with the insurgents and eventually would facilitate their integration in the military. []

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The Embassy says President Magana believes extreme rightists supporting presidential candidate D'Aubuisson are fomenting such anxiety in the military. Magana plans to assist the chiefs of the armed forces in drafting a paper that outlines the military's postelection concerns. He also will help to win approval from all political party leaders for the military's policy position. []

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Despite Vides's calls for neutrality during the campaign, the Embassy reports that at least two important field commanders have been reprimanded for trying to intimidate peasants to vote for D'Aubuisson. []

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Comment: Vides's fears about potential election difficulties in the military establishment and his concern about the apparent efforts by rightist political forces to manipulate individual officers probably are well founded. He and other pragmatic officers seem to regard the military position paper as a device for preventing major problems, particularly in dealings with Christian Democratic presidential candidate Duarte and with D'Aubuisson. []

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Nevertheless, efforts by some officers to sway the vote appear inevitable. Although these attempts are unlikely to have a substantial impact on the voting, D'Aubuisson probably will be the main beneficiary. []

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PERSIAN GULF-US: Unease About Policy in Lebanon

The pullback of the US Marines in Lebanon has caused concern among leaders in Qatar, the United Arab Emirates, and Oman that the US cannot be relied upon to protect their security. Qatar's Crown Prince Hamad asked US Embassy officials last week how the US would deal with a similar show of force in the Persian Gulf. The chief foreign policy adviser to the President of the UAE says the fall of Lebanon is a forerunner of disaster for the Persian Gulf, which he sees encircled by radical religious and nationalist forces. Omani Minister of State for Foreign Affairs Alawi told a US banking delegation on Sunday that US indecisiveness in Lebanon had resulted in a victory for Syria and the USSR. [REDACTED]

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Comment: Arabs of the Persian Gulf are ambivalent about developments in Lebanon and US policy there. They profess to support the legitimate government against extremists, but they want to avoid appearing to side with Christians in a war with Muslims. They have urged the US to stand up to the Syrians but say they are appalled by the damage caused by US Navy shellings. Their overriding concern is that the US pullback in Lebanon will encourage Iranian aggression. [REDACTED]

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USSR-VIETNAM-CHINA: Support for Hanoi

Pravda on Thursday carried a TASS dispatch from Hanoi recounting Vietnamese press articles on the history of the Sino-Vietnamese border dispute. TASS drew a sharp contrast between Hanoi's "sincere efforts" to improve relations with China and Beijing's demands for recognition of the existing border established by Chinese "aggression" in 1979. The TASS dispatch also said that the Chinese are continuing subversive activity against Laos and Kampuchea and that they are "intimidating the ASEAN countries with the specter of Vietnamese expansionism" in an attempt to "isolate" Hanoi.

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Comment: The article in *Pravda* is the USSR's first public criticism of China since Andropov's death and marks a shift from the more positive coverage given the talks in Moscow last week between First Deputy Premier Aliyev and his visiting Chinese counterpart. It probably was prompted by heightened concern over Sino-Vietnamese border tensions. The article also may be designed to reassure the Vietnamese that Moscow will protect their interests in the Sino-Soviet talks scheduled for next month.

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ANGOLA: New Fighting in the East

A statement issued by UNITA on Thursday claims that government troops, with the support of Cuban armor and aircraft, have launched an offensive to recapture insurgent-controlled areas in eastern Angola. UNITA cited the offensive as a reason it cannot participate in the Angolan-South African cease-fire.

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Comment: The offensive could be an attempt to relieve the Angolan forces in Luau that have held out against insurgent attacks since late January. UNITA now has over 3,000 soldiers near Luau, and they probably will put up stiff resistance to any government effort to reclaim lost territory. UNITA leader Savimbi is likely to believe that a strong military showing in the east would underscore UNITA's demand for a role in negotiations with Luanda leading to a regional settlement.

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SPAIN: Effort To Disrupt Basque Election

The Basque Socialist senator murdered on Thursday presumably was killed by members of some offshoot of the terrorist organization ETA, in order to disrupt the election tomorrow of representatives to the Basque regional parliament and to strike back at Madrid for its more ruthless tactics against Basque terrorists. Because of the assassination, campaigning has been halted. All major parties, including Herri Batasuna, the political front for ETA's military wing, have condemned the act. Two groups have claimed credit for killing the senator. []

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Comment: Popular revulsion may harm Herri Batasuna's showing in the election because it is closely identified with terrorism. Sympathy votes and the support of rightists who want to protest terrorism will strengthen the Socialists' chances of placing a strong second to the moderate Basque Nationalist Party. This could deprive the Nationalists of their current working majority in the Basque parliament. If they are forced to govern in coalition with either the right or the left, their ability to cooperate with Madrid on counterterrorism would be limited. []

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SOUTH KOREA: Further Easing of Political Ban

Seoul plans to announce today that President Chun is lifting the ban on 202 of 301 persons prohibited from participating in politics. A South Korean security official says several leading opposition figures will not have their rights restored. []

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Comment: The announcement comes on the first anniversary of Chun's initial easing of the ban, and he will point to it as an example of his commitment to gradual relaxation of controls. The move should strengthen the hand of Chun's ruling party in the parliamentary elections expected later this year or early in 1985. The legal opposition parties already are squabbling over how to absorb the newly released politicians. Major opposition figures prohibited from political activity will be tempted to violate the ban to preserve their position. This could increase the chances for a clash with the government this spring. []

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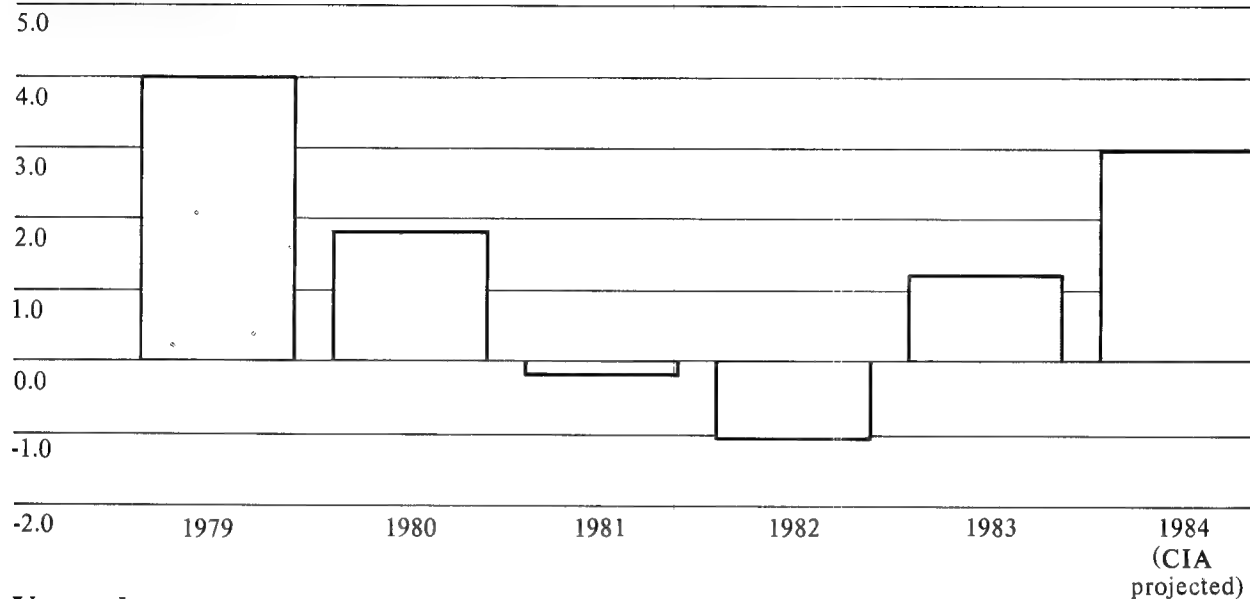
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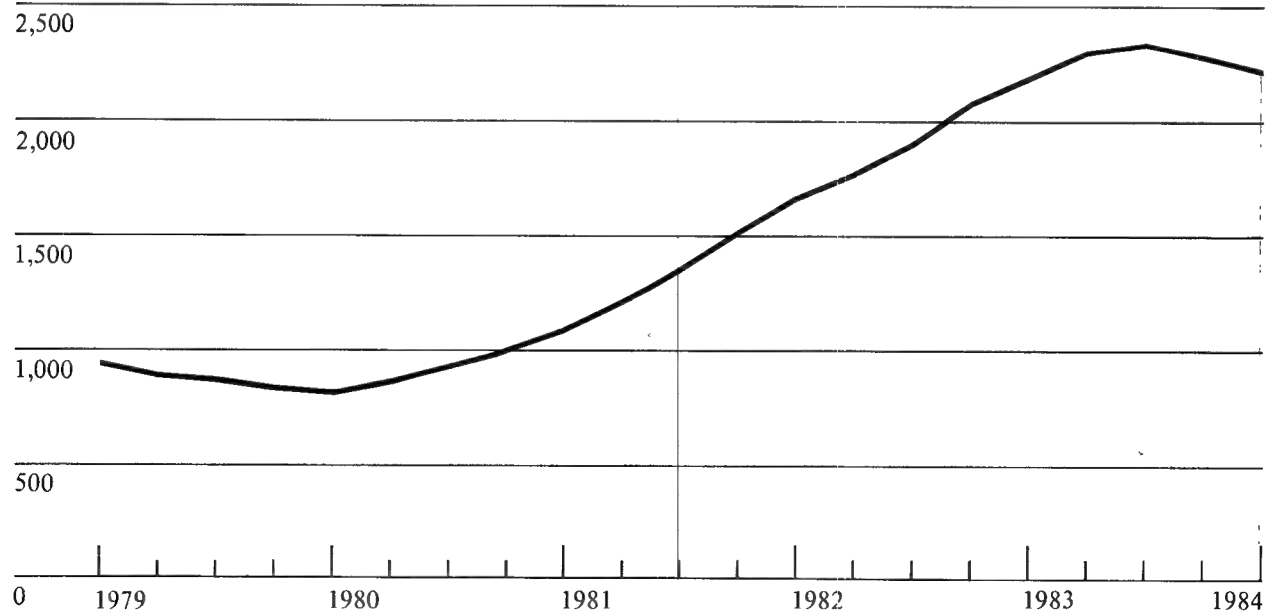
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West Germany:**Real GNP Growth**

(Percent Change)

**Unemployment
Seasonally Adjusted**

(In Thousands)



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Special Analysis**WEST GERMANY: Economic Policy Under Attack**

West German economic indicators are almost all positive, but the government continues to be criticized for not tackling fundamental problems. Business leaders complain of a lack of overall direction in economic policy, and respected research institutes accuse the government of lacking the will to bring about promised changes in the structure of the economy that are necessary for medium-term growth. Even members of Chancellor Kohl's center-right coalition question whether the government can deal effectively with the country's underlying economic ills.

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Kohl had campaigned on a pledge to restore confidence and incentive to an overtaxed, overregulated economy that was burdened by a financially unsupportable social welfare system. The new government moved quickly after taking office in October 1982, increasing taxes and cutting social benefits, which reduced large budget deficits substantially.

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Over the past year growth has consistently outstripped forecasts, and each new projection has been more optimistic than the one before. After real GNP growth in 1983 of 1.3 percent, forecasts for 1984 range from 2.5 to 3 percent, largely on the strength of expected gains in exports and investment of 5 percent or better. Unemployment, West Germany's most intractable economic problem, could ease slightly this year.

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Nevertheless, the government's much-proclaimed economic turnaround has not yet materialized. West German businessmen detect a sense of drift in economic policy as the government fails to follow up on its initial steps.

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Uncertainty in the business community has been fostered by:

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- Government vacillation over tax reform and over how to reorganize the social welfare system.
- Bickering within the coalition.
- The impending trial of Economics Minister Lambsdorff, who is charged with corruption.

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Kohl has been buffeted by a succession of problems related to the economy. The proposed merger of the Thyssen and Krupp steel companies collapsed in November, after Kohl had committed his prestige by intervening to resolve differences delaying the plan. The merger was central to government efforts to reorganize the steel sector, which is being hurt by weak demand and cheap imports.

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The bankruptcy of West Germany's largest construction company also caused anxiety about the economy to grow. Some banks, moreover, had to take emergency action to bail out a major private bank.

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The aggressive Metalworkers Union, the country's largest union with 2.6 million members, announced last October that it was mobilizing to secure a 35-hour workweek. Since then, labor has demonstrated a new militancy in the face of firm resistance by employers. Government officials and businessmen fear that serious industrial disputes will develop this spring that could threaten the recovery.

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Widespread Criticism

West Germany's five major economic research institutes acknowledged last fall that the economy was recovering more rapidly and strongly than they had thought possible. As a result of unresolved problems inherent in the structure of the economy, however, they expect the recovery to be short lived.

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The institutes believe business generally lacks confidence that the growth will be sustained because the government has presented no medium-term economic strategy. Specifically, Bonn has not made the changes it led business to expect.

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Subsidies to ailing industries, taxation, and bureaucratic regulation have increased. According to the institutes, these developments are discouraging investment and initiative.

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A number of government leaders, as well as rank-and-file members of the parties in the government, reportedly also lack confidence in the government's policy. They worry that, if the recovery were to founder and unemployment to resume its climb, the government could be unseated by the Social Democrats in 1987.

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Lambsdorff himself has said the election will be won or lost on the issue of the economy. Government support among workers is

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particularly vulnerable. They have lost income as a result of austerity measures. []

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Some Cautious Optimism

The Council of Economic Experts presented a hopeful analysis in November, asserting 3-percent real growth is attainable this year with exports and investments playing leading roles. It seems determined to counteract the widespread pessimism, which it considers exaggerated. The council believes that such a misreading of the economy has a self-fulfilling, depressing effect on investment. []

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The council, however, states that it is concerned that not enough is being done to dismantle obstacles to growth. In particular, it cites the need for tax reform and for ending oversubsidization of ailing industries. []

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For the government, the most welcome aspect of the current economic rebound is the respite in the growth of unemployment. Joblessness is still near record-high levels, with 9 percent of the labor force out of work. []

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Since August, however, joblessness has been inching downward. Forecasters increasingly see unemployment holding steady or declining slightly this year. []

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Outlook

Kohl is not yet in political trouble over the economy. Polls show that, if an election were held now, the Christian Democrats would do virtually as well as in the election last March. []

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The current limited recovery offers an opportunity to establish an economic policy for the medium and longer term. Kohl almost certainly realizes his political future largely depends on his handling of the economy. He reportedly would like to introduce a new economic strategy in May at the congress of the Christian Democratic Party. []

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The government, however, is unlikely to take decisive action on the economy any time soon. Kohl remains reluctant to intervene in the disputes over the timing of tax reform and other issues or to take a position on the details of any issue. So far, he has not shown the will to override internal dissension and develop a program. []

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